



SUBJECT: 2021 budget framework

TO: Corporate Services, Strategy, Risk & Accountability Cttee.

FROM: Finance Department

Report Number: F-45-20

Wards Affected: All

File Numbers: 435-03

Date to Committee: September 17, 2020

Date to Council: September 28, 2020

Recommendation:

Receive and file finance department report F-45-20 regarding the 2021 budget framework; and

Temporarily redirect the planned 1.25% increase to the dedicated infrastructure renewal levy for 2021 to the operating budget for 1 year to provide funding for one-time COVID-19 related financial impacts.

PURPOSE:

Vision to Focus Alignment:

- Deliver customer centric services with a focus on efficiency and technology transformation

Background and Discussion:

This report provides Council with the parameters on which staff will prepare the 2021 budget. The framework presented in this report will outline principles that have been recognized by Council as important policy decisions, as well as highlight budget drivers that will impact the 2021 budget.

- In November 2012, Council approved the City of Burlington's Long-Term Financial Plan which outlined strategic objectives and policies to ensure financial sustainability and responsible financial management.

- In May 2017, the Asset Management Financing Plan maintained the recommended increases to the dedicated infrastructure renewal levy.
- In July 2019 Council received the Financial Condition Assessment report which provided a recommendation to enhance existing financial policies to continue to ensure fiscal sustainability and maintain flexibility to address changing conditions.
- In June Council approved the Vision to Focus 4-year Workplan (CM-06-19) which includes a number of key initiatives.

The 2021 budget will align with the objectives and updated policies of these reports, as they represent important and prudent policy decisions of this council.

In addition, in December 2019, Council received the 20-Year Simulation of Forecasted Budget Drivers (F-48-19), which provided a high-level overview of major budget drivers and expected future tax rate impacts. Inherent in the annual operating budget process are the normal pressures of inflation, growth, fluctuating revenues, as well as infrastructure renewal costs.

The 20-year simulation presented to Council in December 2019 (updated to reflect the 2020 Approved Budget) is attached for your reference as Appendix A, to provide a forward-looking outlook on the city's budget impacts. This simulation was prepared prior to the COVID-19 pandemic and as such does not reflect the financial impacts that it will have on the city's financial position. This business as usual simulation forecasted a 4.67% city tax increase (2.87% overall) for 2021.

Knowing that the COVID-19 pandemic will place further financial pressure on these values, staff will continue to look for opportunities to mitigate increases where possible.

Separate business cases for increases to the budget beyond inflationary impacts will continue to be presented to Council where appropriate. These will include commentary as to how the requested change is the result of one or more of the following items:

- 4-year Workplan (From Vision to Focus)
- A new regulation or change in legislation
- An operating impact from the implementation of a capital project
- An enhancement to a service

Council will also be provided a summary of the COVID-19 related impacts which are impacting the city's base budget.

Strategy/process

The COVID-19 pandemic is an unprecedented event that is having a significant financial burden on the city. These financial impacts are the result of restrictions designed to reduce the transmission of the virus within our community. As reported in the Operating

Budget Performance Report as of June 30 (F-46-20) on this same agenda, the city is currently forecasting revenue losses in excess of \$18 million for 2020. A portion of this financial strain is anticipated to continue into 2021 and beyond. Unlike the Federal and Provincial Governments, the City cannot budget for a deficit.

There are still many unknown variables related to COVID-19 that have the potential to impact the 2021 budget, including the duration of the pandemic and length of the recovery period. Staff will continue to monitor the impacts of COVID-19 and the projected recovery plan to identify pressures that are anticipated to extend into 2021.

The 2021 budget will incorporate the latest information available while identifying risks and pressures. There will be a continued focus on core service delivery, continuous improvement and finding cost savings in all program areas to mitigate the tax increase. The 2021 budget documents will include a summary of COVID-19 financial impacts.

Safe Restart Agreement Funding

On August 12, the Province of Ontario announced as part of Phase 1 of the federal-provincial Safe Restart Agreement that the City of Burlington will receive \$4,470,700 to support municipal operating pressures and a further \$1,571,213 to Burlington Transit.

This funding will help municipalities like Burlington protect the health and well-being of our residents, while continuing to deliver critical public services to our community and assist with economic recovery. It will also provide immediate relief from transit pressures, such as lower ridership, reduced revenues as well as for new costs due to COVID-19, such as enhanced cleaning and masks for staff. The phase 1 funding will be used to partially mitigate the City's estimated \$18 million in revenue losses for 2020.

The City will be making an application for Phase 2 funding support later this fall.

Budget Pressures

Capital Impacts

Capital Investment in Infrastructure

The City's infrastructure assets are the foundation upon which many services are delivered and capital investment in infrastructure is key to achieving economic growth, meeting organizational goals and mitigating future risks. As per the city's 2016 Asset Management Plan, the city's assets have a replacement value of approximately \$3 billion and a backlog of \$126.5 million. Historically, roughly 70% of spending on the capital program has focused on reducing the growth of the renewal deficit and addressing in-year needs to ensure reliable service. The remaining 30% of the capital

program is focused on infrastructure investments required to support growth, with very limited funding available for new infrastructure initiatives.

The city's infrastructure renewal levy is in place to provide increased funding annually to the capital renewal program and is the largest funding source for these projects. Any long-term reduction in this funding will significantly impact the city's Asset Management Program and accompanying 60-year Financing Plan and will result in decreased levels of service across many asset categories.

In 2020, City Council declared a Climate Emergency. With a significant backlog and limited funding for growth, there is very little capacity remaining in the existing capital program to invest in green infrastructure that supports the stewardship of natural ecosystems.

Vision to Focus Initiatives

In July 2019, Council approved the 2018-2022 Burlington's Plan from Vision to Focus (V2F). Area 3 of this document focuses on Supporting Sustainable Infrastructure and a Resilient Environment. Some of the key actions of this Focus area are to decrease the city's infrastructure funding gap, reduce greenhouse gas emissions from city operations and increase the city's tree canopy.

There are a number of infrastructure investments that can support the city's goal of reducing greenhouse gas emissions by reducing the reliance on the use of fossil fuels, including:

- the greening of the corporate fleet and city facilities;
- the expansion and greening of the transit system;
- the construction of active transportation facilities related to cycling and trails; and
- an expanded tree planting and parkland acquisition program.

These initiatives have numerous environmental and social benefits, but they will require significant additional capital investment on an ongoing basis if meaningful progress is to be made. Sustainability needs to be fundamental to the City's infrastructure investment decisions including improving climate resiliency, by embedding climate considerations into existing and planned capital projects. This will be critical to meeting V2F goals.

As part of the 2021 budget, staff will investigate the feasibility and affordability of establishing a green infrastructure levy which would provide dedicated capital funding for these types of projects.

Provincial Gas Tax

There is a risk that the annual provincial gas tax allocation the city receives may be reduced in 2021 due to the reduction in fuel usage across the province during the pandemic. Of the roughly \$2.3 million in provincial gas tax received annually, \$1 million supports the Transit operating budget while the balance provides funding to the capital program. Staff will continue to be prudent when budgeting for draws from this reserve fund for capital projects.

Development Charges and Park Dedication

The city approved an updated Development Charges By-law which came into effect on June 1, 2019. The growth-related capital infrastructure included in the 2019 DC Background study will be identified for inclusion in the 2021 Budget and Forecast.

Spending of development charges is based on the City's policy that expenditures in any year do not exceed the uncommitted balance in the reserve fund at the end of the preceding year. The last two years the city has experienced a decline in the receipt of development charges, and park dedication revenues. On average development charges revenues are approximately \$5 million a year. In 2019, \$3.1 million was received, and as of July 2020 a total of \$640,000 has been received. Similarly, Park Dedication revenues average approximately \$2.7 million per year. As of July 2020, a total of \$57,000 has been received to date. The reduced revenues will result in the delay of capital projects reliant upon these funding sources.

COVID-19 has had broad sweeping financial implications across all business sectors and that can be attributed to much of the decline experienced this year. Staff will continue to closely monitor revenue implications as it relates to funding of the city's capital program.

On July 21, 2020 the Province approved Bill 197, Covid-19 Economic Recovery Act. As part of this new legislation, staff will be required to update the DC background study and develop a Community Benefits Charge strategy by July 21, 2022. The updates will allow the city to collect growth-related revenue on additional services, remove the 10% discount on soft services and collect a percentage of land value on high density developments, potentially increasing our revenue potential however, not creating revenue neutrality.

Operating Impacts

Service Redesigns

As city services resume operations following the lifting of Provincial restrictions there will be a need to redesign how services are offered. While some of these redesign costs

are being realized in 2020 a number of the increased costs are permanent in nature and will require an adjustment beyond inflation to incorporate them into the 2021 budget.

Controllable Revenues

In 2020 staff are projecting an \$18 million shortfall in revenues across city operations as a result of the COVID-19 pandemic. While it is difficult to predict the long-term impact it is expected that there will once again be a significant reduction in revenues as these are highly dependent on the phased recovery of services and the future participation in city programs and services by residents and businesses.

User fees such as recreation program fees, facility rentals, transit fares, licenses and permit fees represent roughly 14% of city funding (\$37.4 million). As an example, each 10% reduction in these revenues would represent a \$3.7 million shortfall or 2.1% city tax impact.

One-time COVID-19 funding

While a portion of the financial pressures from COVID-19 will be long-term (beyond 2021) in nature a number are expected to be shorter term and will be realized just in 2021 while operations continue to be phased towards a “new normal”. As an example, longer-term impacts may include the need for increased staffing and cleaning materials for enhanced sanitation protocols and permanent reductions to revenues related to a reduced number of available facility rental hours while this cleaning is being performed. Shorter-term impacts may result from the continued restrictions on facility capacities and the public’s slow return to program offerings.

To partially mitigate the 2021 impact of COVID on the operating budget it is recommended that the planned increase to the dedicated infrastructure renewal levy be temporarily redirected to the operating budget for 1 year. This will provide just over \$2.1 million of one-time funding to offset the anticipated one-time COVID impacts in 2021. The one-time redirection of this planned increase to the infrastructure renewal funding to the capital program will impact the city’s Asset Management Plan. As part of the new provincial regulations, the city will be updating the asset plans and corresponding financial plan in stages. Staff will come forward with an update to the city core assets in the spring of 2021 which will address any financing shortfalls.

Should any additional funding be available as part of the Phase 2 Safe Restart Agreement application that is not required to offset the 2020 budget shortfall it will be carried forward to address one-time 2021 impacts.

Labour Market & Workforce

Municipalities are service organizations that rely heavily on human resources to deliver the range and quality of services that residents have come to expect. Human resource

costs (including benefits, training, etc.) as a percentage of the City's gross budget has changed from 50.5% in 2004 to 46.7% in 2020.

A significant risk to the corporation is the attraction and retention of talent within the Greater Toronto/Golden Horseshoe area. The following realities create a labour market and workforce risk:

- number of staff eligible to retire;
- number of municipal job opportunities within 1-hour commute of Burlington;
- ability to hire qualified candidates; and
- a compensation system requiring updates to be more competitive

While some additional staff positions have been added in recent years, financial constraints prevented many other pent-up needs from being incorporated. This results in deficiencies in human capital, difficulties servicing a growing population and leads to risk in operations and compliance with legislation. The existing workload is not sustainable in a number of areas. This has been identified as the number one enterprise risk for the City.

Work continues on Evolving the Organization including the additional staffing recently approved as part of the first phase of the Community Planning Organizational Design Update (PL-45-20). The financial impact of these new permanent positions will be realized in the 2021 base budget.

Additional phases of this plan as well as requests for staffing changes in other service areas will be considered as part of the proposed 2021 budget. Where recommended, these additional staffing requests will be presented as business cases.

Building a 21st Century Workforce

There are several technology related projects currently underway to modernize the delivery of city services and provide ongoing operational efficiencies and improved data analytics. Some of these projects include:

- the city's new Enterprise Resource Planning (ERP) system;
- a new Enterprise Asset Management System (EAMS);
- the continued expansion of the new Customer Relationship Management (CRM) system; and
- the final implementation stages of the city's new Business Intelligence (BI) tool.

Each of these major initiatives require financial and staffing resources to ensure a successful implementation and as well as ongoing operational support.

Planning for the Future - Reserve Funds

Reserves and reserve funds when used in conjunction with debt policies are a critical component of a municipality's long-term financial plan and financial health.

A financial condition assessment of the city is presented to Council every four years. The most recent was in June 2019 (Report F-29-19). This report presents the city's financial health and position, observations and a review of reserve and reserve funds with related financial policies.

Reserves and reserve funds provide tax rate and cash flow stability when the City is faced with unforeseen or uncontrollable events. It ensures cash flows are sustained and allows for internal financing for temporary or one-time expenditures. Furthermore, these funds provide the City flexibility to manage debt levels and planning for future liabilities.

- **Stabilization Reserve Funds** – These reserve and reserve funds are used to mitigate the risk of rising taxes or reducing service levels due to unforeseen or temporary events. In order to continue to build the balance and to maintain a prudent level, the city is targeting an uncommitted balance in stabilization reserve funds of between 10-15% of net revenues.

As of June 2020, the consolidated balance of these reserve funds is 10.7%. However, depending on the magnitude of any Phase 2 funding received under the Safe Restart Agreement and the overall final 2020 year-end position there will likely be a need to draw upon this balance at year-end.

- **Capital Reserve Funds** - Annual contributions to capital funds that are consistent and predictable is vital for the future rehabilitation and replacement of assets. The city is targeting a balance equal to 2% of the total asset replacement value. Based on the City's total asset replacement value of \$3 billion, this equates to an estimated \$60 million.

As of June 2020, the City's uncommitted consolidated year-end balance in capital reserve funds is approximately \$24.3 million, well below the intended target. This value has decreased in recent years.

- **Corporate Reserves and Reserve Funds** - These reserve and reserve funds are used to manage current costs that will be transferred to future generations, as the City incurs liabilities that do not have to be paid immediately. Reserve funds in this category include the Employee Accident, Benefits and Insurance reserve funds.

Contributions to Corporate Reserve / Reserve Funds should take into consideration the liability associated with these funds. A sufficient budget allocation is required to fund WSIB costs and post-employment benefits so that the Employee Accident Reserve Fund and Benefits Reserve Fund can eventually be replenished to cover the liabilities.

Assessment Growth

The weighted assessment growth for the 2021 budget is estimated to be 0.6% which provides approximately \$1 million of additional revenue to offset inflation and growth-related costs in the base budget.

Over the past 4 years, assessment growth has ranged from a high of 1.07% to a low of 0.15% for an average of 0.57%.

| Year | Assessment Growth |
|-------------------|-------------------|
| 2017 | 0.15% |
| 2018 | 0.41% |
| 2019 | 0.64% |
| 2020 | 1.07% |
| 2017-2020 Average | 0.57% |

Financial Matters:

Staff will prepare the 2021 budget taking into account the budget pressures identified above, while aligning to the city’s long-term financial plan and the important policy decisions of this council. The following table outlines the forecasted tax increase for 2021:

| | 20 Year Simulation (Appendix A) | Forecasted City Tax Increase |
|---|---------------------------------|------------------------------|
| Base Budget* | 2.04% | 2.00% |
| Long-term COVID-19 Impacts and Evolving the Organization** | | 1.20% |
| Temporarily redirected infrastructure levy to address short-term COVID-19 Impacts | 1.25% | 1.25% |
| Sub-total | 3.29% | 4.45% |
| Service Enhancements | 1.38% | 0.50% |
| Total City Increase | 4.67% | 4.95% |
| Estimated Overall Increase | 2.87% | 2.90% |

* Includes estimated assessment growth of 0.6%

** Preliminary estimate based on Service redesigns and Phase 1 of PL-45-20

For 2019, the Toronto 12-month CPI average was 1.9%. The Bank of Canada is targeting 2% inflation for 2021 while major Canadian banks are forecasting inflation between 1.1% to 2.2%. These forecasts are largely dependent on the speed and strength of the economic recovery following the easing of pandemic restrictions.

Staff will be working closely with Services during the development of the 2021 budget to mitigate the forecasted 4.95% city increase (2.90% overall).

Consideration will also be given to limiting service enhancements in 2021 including the possible deferral of V2F initiatives until such time as the financial situation improves.

The chart below highlights the historical results of Council’s comprehensive budget deliberations at both the City and the Region;

| Year | City* Tax Increase | Total (City, Region, Education) |
|-------------------|-------------------------------|--|
| 2011 | 0.91% | 0.94% |
| 2012 | 3.29% | 1.79% |
| 2013 | 4.46% | 1.81% |
| 2014 | 3.50% | 1.49% |
| 2015 | 3.64% | 2.08% |
| 2016 | 3.14% | 2.01% |
| 2017 | 4.42% | 2.60% |
| 2018 | 4.36% | 2.64% |
| 2019 | 2.99% | 1.96% |
| 2020 | 3.99% | 2.43% |
| 4-yr Avg. | 3.94% | 2.41% |
| 10-yr Avg. | 3.47% | 1.97% |

Over the last four years the average city tax change is 3.94% and the overall tax change is 2.41%. During this four year period, the city’s budget included the 1.25% infrastructure levy to lower the infrastructure funding gap while at the same time provided significant investments in Transit, By-law Enforcement and Forestry.

For the last ten years the city tax change is 3.47% with an overall tax rate change of 1.97%.

According to the BMA annual study, Burlington remains below the group average of surrounding GTHA municipalities when comparing the tax burdens of similar properties.

Support for Residents and Businesses

While the pandemic has had a significant impact on the city's finances, many taxpayers in Burlington have also felt the impact on their finances. In response to the COVID-19 pandemic, the city has provided the following financial relief programs for residents and businesses:

Tax relief program

Council approved tax relief for payment of April and August instalments up until August 31st without incurring late payment charges.

Due dates for the final billing of property tax instalments were extended to August and October (normally June and September) to provide additional time for the payment of taxes.

Council further approved additional relief to Burlington property taxpayers who require additional assistance for payment tax instalment. The City is offering enrollment in a new monthly pre-authorized payment plan to provide for monthly withdrawals from August 1st to December 1st to pay the remaining 2020 property taxes (April, August, and October instalments). No penalty or interest is charged for taxpayers enrolled in this plan.

\$250,000 small business fund

City Council approved \$125,000 in funds as a COVID-19 expense to support main street businesses and complement the provincial government's Digital Main Street and Provincial Safe Restart COVID-19 programs as well as an additional \$125,000 be earmarked for an immediate and timely small business relief grant program for COVID-19 reopening costs.

Council is also requesting Halton Region match these City of Burlington's contributions.

Free Transit

In an effort to promote social distancing and protect the safety of transit drivers, Burlington Transit rider fares were suspended in March so that users could board and exit the bus from the rear doors. The payment of fares resumed on September 1, 2020.

Free Parking

To help support the efforts to slow the COVID-19 virus in the community, payments for parking on-street and in municipal lots were not required beginning in March 2020. Parking enforcement for lack of payment was also suspended, including parking

exemptions normally required to park on a city street for more than five hours or between 1 a.m. and 6 a.m. Payments for parking resumed on August 4, 2020.

Free Masks

To date, the City has distributed 16,500 non-medical masks to assist the community in complying with the temporary mask bylaw and to help contain the spread of COVID-19.

A total of 14,000 disposable masks, in packages of 20, were donated to the City and 2,500 cloth masks were purchased at a cost of \$10,000. All masks were distributed to individuals, upon request, from City Hall and some Burlington Public Library branches.

Reduced Facility Rental Fees and Fee Assistance

Council recently approved a rental rate reduction of 25 per cent and provided an additional \$25,000 of funding to support the Recreation Fee Assistance program.

The rental rate reduction will help off-set the reduced revenue recreation providers are experiencing due to smaller group sizes, cleaning and additional costs associated with COVID-19. This reduction was retroactive for the summer season and in effect for the fall season.

Recreation Fee Assistance is funding made available to resident individuals or families who need help to pay for City of Burlington recreation programs.

Senior Government Programs

In addition to these city measures, support has been provided by the Federal and Provincial Governments. A summary of a number of these programs can be found in Appendix B.

Climate Implications

In April 2019, Council declared a Climate Emergency. Burlington's Draft Climate Action Plan (CW-20-19) identified a number of initiatives to assist the City in reducing its overall carbon footprint.

As part of the city's reserve and reserve fund review report (F-28-20) the city created a "Green Initiatives Reserve Fund". As we move forward, the city will need to carefully balance the increasing costs associated with being more environmentally conscious against the city's other funding demands.

There are many foundational initiatives in the city's Vision to Focus (V2F) plan such as creating the Climate Adaptation Plan, Corporate Energy Plan, Green Fleet Strategy,

Urban Forestry Management Plan and enhanced Transit that will require significant capital and operating funding to achieve the city’s aspirational climate goals.

As part of the 2021 budget, staff are investigating the feasibility and affordability of implementing a Green Infrastructure Levy to support several long-term environmental infrastructure initiatives including active transportation and the greening of the corporate fleet and facilities.

Engagement Matters:

The city will continue to use existing online engagement tools such as survey opportunities. The results of all public engagement will be reported back to Council in advance of the budget review process. A virtual public townhall will be scheduled in mid-January using the Teams Live format. The Open Book platform will also be used to present the budget and allow the public to view the budget data in an interactive and intuitive format.

Budget Timelines

Below is a brief timeline of the 2021 budget process. Many of these dates are still to be confirmed pending the scheduling of the 2021 Committee calendar.

- CSSRA – Capital Budget Overview December 10, 2020
- Capital Budget Information Session Mid-December 2020 (TBC)
- CSSRA – Operating Budget Overview January 14, 2021
- CSSRA – Capital Budget Review & Approval January 18, 2021 (TBC)
- 2021 Budget Virtual Townhall January 20, 2021 (TBC)
- Operating Budget Information Session Mid-January 2021 (TBC)
- Council – Capital Budget Approval January 25, 2021
- CSSRA – Operating Budget Review and Approval February 16 & 18 2021 (TBC)
- Council – Operating Budget Approval February 23, 2021 (TBC)

Conclusion:

Financial sustainability will continue to be our key strategic priority. The budget will continue to face rising pressure from infrastructure renewal costs, limited revenue growth, and completion of the 4-year workplan initiatives representing visions to meet

important community needs. These factors ultimately impact property taxes and reserve fund balances to maintain / enhance existing service levels and quality of life.

The intended outcome through these challenging times is to minimize the 2021 tax impact resulting from COVID-19. Our financial management goals and strategy are focused on offsetting COVID-19 related revenue losses and cost increases with a variety of mitigation strategies including a continuation of the Expenditure Restraint Program, prudent use of reserve funds where appropriate, funding from the Safe Restart Agreement, and the temporary redirection of infrastructure funding to the operating budget.

Respectfully submitted,

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Appendices:

- A. 20-Year Simulation of Forecasted Budget Drivers
- B. Federal Relief Programs

Report Approval:

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Counsel.